

VZCZCXRO9490
RR RUEHCHI RUEHDT RUEHHM
DE RUEHML #2637/01 1750433
ZNR UUUUU ZZH
R 240433Z JUN 06
FM AMEMBASSY MANILA
TO RUEHC/SECSTATE WASHDC 1673
INFO RUCPDOG/USDOC WASHDC
RUEHXS/ASEAN COLLECTIVE

UNCLAS SECTION 01 OF 02 MANILA 002637

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E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [ECON](#) [EINV](#) [EAID](#) [RP](#)

SUBJECT: AMBASSADOR VISITS CLARK AND SUBIC ECONOMIC ZONES

REF: MANILA 2257

11. SUMMARY: During June 15-16 visits to two former U.S. military bases, the Subic and Clark special economic zones, Ambassador Kenney highlighted continuing U.S. involvement in both regions. Managers of these economic zones briefed the Ambassador on recent infrastructure projects and investment in both zones. During visits to three U.S. companies, managers at Fedex, AOL and Asian Aerospace discussed their experiences investing in Clark and Subic. Visits to a Peace Corps Volunteer site, an orphanage, and a USAID-supported HIV/AIDS project underscored continuing U.S. support for projects in nearby communities.

Rising Asian Investment

12. During the Ambassador's visits to the Subic Bay Metropolitan Authority (SBMA) and the Clark Development Corporation (CDC), managers touted several major infrastructure projects and rising investment from the East Asia region. Following the 1991 closure of U.S. military bases, the GRP has offered investment incentives to develop these special economic zones that collectively host more than 900 companies with roughly 100,000 employees. Subic Administrator Armand Arreza noted several recent projects to develop a cruise ship terminal, expand port capacity and improve the transportation link with Clark. As China finances the construction of a railway link between Manila and Clark, a Chinese firm recently committed to invest \$300 million to produce glass products in Subic and a Korean firm was awarded a \$30 million contract to develop tourism facilities in Clark. These are in addition to the major \$1 billion Korean investment in a shipbuilding facility in Subic announced in February 2006. The Japanese-funded Clark-Subic Expressway will sharply reduce travel time between the two former bases when it is completed in 2007. During a lunch at Subic Bay Yacht Club hosted by SBMA, local leaders expressed enthusiasm for increased port visits by U.S. military vessels, noting the substantial economic benefits provided by these visits.

13. Delays in restoring promised tax incentives in Clark have underscored differences in the pace of development in these two economic zones. Following an August 2005 Supreme Court decision to nullify longstanding tax incentives in Clark (see Reftel), the House took until May 31, 2006 to approve legislation to restore the incentives. The CDC Chairman expressed optimism that the Senate will approve this legislation by mid-August but commented that the issue has served as a "sword of Damocles" hanging over the CDC, discouraging further investment. The Ambassador emphasized that restoration of tax incentives is vital to maintain the credibility of the CDC with potential investors.

Fedex Confronts Relocation Challenges

¶4. During the Ambassador's visit to Fedex's Regional Hub in Subic, Fedex managers discussed future challenges it will face in relocating its Asia Pacific hub from Subic to Guangzhou by 2008. Regional Hub manager, Beng-Wee Tan, expressed concern that currently positive relations with SBMA and local officials may deteriorate as the relocation date approaches. Although this decision was announced in 2005, SBMA officials tend to treat the relocation as still hypothetical, suggesting that SBMA may not fully appreciate the finality of Fedex's decision. Mr. Tan also noted that Chinese restrictions on importation of equipment and transfer of workers would pose additional challenges. When the relocation is complete, Roughly 200 workers will be transferred to maintain Fedex's Philippine operations in Manila, while the remaining 580 jobs will be replaced by Chinese workers in China.

AOL and Asian Aerospace

¶5. At the AOL Member Services center in Clark, the Ambassador observed an enthusiastic staff of consultants who provide technical support and monitor chat rooms for 23.5 million subscribers. AOL's emphasis on human resource development has helped this facility maintain a 10% worker attrition rate, far lower than 40% attrition rates typical for the booming call center industry. Employee perks, including a recreation area, subsidized cafeteria, and a new gym contribute to an exuberant working atmosphere. The Amcit General Manager explained that AOL is working with other call center consulting firms to expand into voice-

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based technical support.

¶6. During a tour of the Asian Aerospace aircraft maintenance facility, CEO Peter Rodriguez outlined their business strategy for military and civilian aircraft maintenance. A Philippine affiliate of Lockheed-Martin and other U.S. manufacturers, Asian Aerospace recently completed the US-funded refurbishment of a C-130 cargo plane that was turned over to the Philippine Air Force on April 28, 2006. During the briefing and in a letter to the Ambassador, Mr. Rodriguez expressed his interest in helping to provide maintenance services for the U.S. fleet of Hercules aircraft currently serviced in Singapore. Asian Aerospace also aspires to become a regional maintenance hub for cargo aircraft.

Peace Corps and USAID Projects

¶7. In visits to a Peace Corps Volunteer site, a USAID-funded HIV/AIDS project and the American Cemetery in Clark, the Ambassador highlighted continuing U.S. engagement in communities near Clark and Subic. At the Lubao Reception and Study Center for Children, a Peace Corps Volunteer is coordinating staff development and developing programs for special needs children. Angeles City Mayor Carmelo Lazatin joined the Angeles AIDS Council in briefing the Ambassador on the Angeles City Reproductive Health and Wellness Center and their work in combating the spread of HIV/AIDS in Angeles City and surrounding areas. The center conducts HIV surveillance and HIV/AIDS prevention programs, targeting high-risk groups, notably sex industry workers. Angeles City is one of 10 HIV/AIDS sentinel surveillance sites supported by USAID. During a visit to the Clark American Cemetery, the Ambassador met American Citizen Services Wardens who also chair the cemetery committee created by locally resident U.S. veterans to maintain this final resting place for 2,030 fallen American soldiers.

Media Coverage

18. During news media encounters in Lubao, Subic, Angeles and San Fernando, the Ambassador emphasized continuing U.S. engagement through private investment and community development projects. The visit to the isolated Reception and Study Center for Children helped to publicize the need for foster parents and adoptive families. During a radio interview near the end of the trip, the Ambassador answered a wide range of questions, underscoring successful examples of U.S. investment, Peace Corps support for the Lubao orphanage and USAID involvement in HIV/AIDS prevention programs.

Comment

19. The visits highlighted several dynamic and successful examples of U.S. investment at AOL and Fedex, as well as the high quality of maintenance and servicing available for U.S. aircraft through Asian Aerospace. The tours of both zones showed that Clark continues to lag behind the Subic Freeport Zone in its level of development. Although Subic managers articulated a clearer vision of their future development strategy, both briefings tended to stray from realistic strategy into wishful projections for future growth. The relocation of Fedex and delays in restoring Clark's tax incentives have underscored the challenges these investment zones will continue to face in competing for new investors.

KENNEY